LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7119 **DATE PREPARED:** Jan 18, 2001
BILL NUMBER: SB 529 **BILL AMENDED:**

SUBJECT: Research and Development Tax Credits.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill extends the expiration of the Research Expense Tax Credit to December 31, 2005. The bill also modifies the Research Expense Tax Credit by repealing the apportionment limit.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: There will be some minimal expenses for the Department of State Revenue to change tax forms, instructions, and computer programs which can be absorbed in its current budget.

Explanation of State Revenues: *Expiration Date:* This bill extends the expiration date of the Research Expense Credit for three more years. Under the current statute, this credit is set to expire December 31, 2002. Over the past six years, the current Research Expense Credit has ranged from $7 M to $15 M. In FY 96 approximately $9.2 M of tax credits were claimed, with $15.3 M in FY 97 and $11.2 M in FY 98. It is difficult to estimate the exact impact of continuing this tax credit since it is dependent on the amount of research expenses individual taxpayers make during the year. However, the revenue loss is expected to continue to be within the range of $10 M to $15 M annually.

Apportionment: The elimination of the apportionment factor could increase the amount of Research Expense Credits taken, up to an additional $5.2 M annually beginning in FY 2002. This modification would mean that the credit is based on the taxpayer's Indiana qualified research expenses, rather than the lesser of its Indiana qualified research expenses or its apportioned research expenses for the tax year beginning January 1, 2001. Currently, only businesses that do not have income apportioned to the state for a taxable year may calculate their credit based on only Indiana research expenses.

It is unknown how many Indiana businesses would be affected by this change. This change would not reduce the amount of credit that is currently taken by any particular taxpayer. This change would benefit Indiana domiciled companies that conduct a significant amount of their research in Indiana, but have apportionment factors for income earned in Indiana that is less than the percentage of their overall research expenses in the state. Elimination of the apportionment factor will allow all companies to compute their tax credit based on the amount of research conducted in the state.

With additional incentives created for research and development activity based in the state of Indiana, the revenue loss from this credit could increase by an indeterminable amount. The credit provides $50,000 for each $1 M in new research expenses.

Increased expenditures on research activities could also generate additional Adjusted Gross Income and Sales Tax revenue if these expenses are used to hire additional employees or purchase related equipment.

The research expense tax credit affects revenue collections deposited in the General Fund and Property Tax Relief Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: The Department of State Revenue.